

MKS Inc.
Consolidated Balance Sheets
(U.S. dollars, thousands, unaudited)

	January 31 2009	April 30 2008
Assets:		
Current assets:		
Cash and cash equivalents (note 2)	\$ 16,254	\$ 12,933
Accounts receivable, net of allowances for doubtful accounts of \$180 (April 30, 2008 – \$217)	8,776	16,054
Deferred income taxes	1,384	1,384
Other	1,302	1,539
Total current assets	27,716	31,910
Fixed assets (note 3)	4,295	4,530
Intangible assets (note 3)	90	155
Goodwill (note 3)	2,424	2,424
Deferred income taxes	1,759	3,245
Total assets	\$ 36,284	\$ 42,264
Liabilities and shareholders' equity:		
Current liabilities:		
Accounts payable	\$ 2,407	\$ 2,430
Accrued liabilities	2,708	5,149
Income taxes payable	367	656
Deferred revenue	16,620	15,460
Total current liabilities	22,102	23,695
Shareholders' equity:		
Share capital (note 4)	55,342	56,408
Accumulated other comprehensive loss	(3,244)	(1,894)
Accumulated deficit	(37,916)	(35,945)
Total shareholders' equity	14,182	18,569
Total liabilities and shareholders' equity	\$ 36,284	\$ 42,264

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Operations
(U.S. dollars, thousands, except per share data, unaudited)

	Three Months Ended January 31		Nine Months Ended January 31	
	2009	2008	2009	2008
Revenue:				
License	\$ 3,702	\$ 4,120	\$ 16,283	\$ 15,050
Maintenance	6,980	6,584	21,066	19,191
Service	2,521	2,086	7,487	5,784
	13,203	12,790	44,836	40,025
Operating expenses:				
Cost of product and support	1,242	1,122	3,679	3,108
Cost of service	1,628	1,478	5,371	4,232
Sales and marketing	4,782	5,486	16,038	16,897
Research and development	3,182	3,364	9,310	10,330
General and administrative	2,022	1,971	5,852	5,928
Foreign exchange loss (gain)	(213)	(27)	340	(330)
Stock based compensation (note 4 (d))	142	202	721	505
	12,785	13,596	41,311	40,670
Income from operations	418	(806)	3,525	(645)
Interest income, net	11	44	72	255
Income before income taxes	429	(762)	3,597	(390)
Income tax provision (recovery):				
Current (note 5)	(122)	—	(88)	(196)
Deferred	226	(8)	1,388	683
Income tax provision (recovery)	104	(8)	1,300	487
Net income (loss)	\$ 325	\$ (754)	\$ 2,297	\$ (877)
Earnings (loss) per share (note 7):				
Basic and diluted	\$ 0.01	\$ (0.01)	\$ 0.05	\$ (0.02)
Basic weighted average number of shares outstanding	49,667	50,751	50,526	50,652
Diluted weighted average number of shares outstanding	49,698	50,751	50,859	50,652

See accompanying Notes to Consolidated Financial Statements

MKS Inc.
Consolidated Statements of Cash Flows

(U.S. dollars, thousands, unaudited)

	Three Months Ended January 31		Nine Months Ended January 31	
	2009	2008	2009	2008
Cash flows from operating activities:				
Net income (loss)	\$ 325	\$ (754)	\$ 2,297	\$ (877)
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:				
Depreciation of fixed assets	358	368	1,019	994
Amortization of intangible assets	22	22	65	64
Stock based compensation	142	202	721	505
Deferred income taxes	226	(8)	1,388	683
Loss on disposal of fixed assets	21	30	62	73
Change in operating assets and liabilities:				
Accounts receivable	2,845	289	7,278	(3,174)
Other	(21)	(97)	237	(114)
Accounts payable	(1,052)	(454)	(23)	(217)
Accrued liabilities	(388)	(549)	(2,441)	163
Income taxes payable	(131)	238	(289)	41
Deferred revenue	3,881	2,565	1,160	1,045
Net cash provided by (used for) operating activities	6,228	1,852	11,474	(814)
Cash flows used for investing activities:				
Purchase of fixed assets	(235)	(401)	(935)	(1,003)
Net cash used for investing activities	(235)	(401)	(935)	(1,003)
Cash flows used for financing activities:				
Proceeds on issuance of common shares	71	265	514	390
Cash paid for shares repurchased for cancellation	—	—	(3,534)	—
Dividends paid	(995)	(1,015)	(3,035)	(3,040)
Net cash used for financing activities	(924)	(750)	(6,055)	(2,650)
Effect of exchange rate changes on cash and cash equivalents	570	53	(1,163)	(159)
Change in cash and cash equivalents balances	5,639	754	3,321	(4,626)
Cash and cash equivalents, beginning of period	10,615	9,878	12,933	15,258
Cash and cash equivalents, end of period	\$ 16,254	\$ 10,632	\$ 16,254	\$ 10,632

Supplemental cash flow information:

Interest received	\$ 11	\$ 44	\$ 72	\$ 255
Income taxes paid	52	—	52	—
Income taxes refund received	—	242	—	242

See accompanying Notes to Consolidated Financial Statements

MKS Inc. Notes to Consolidated Financial Statements

(U.S. dollars, thousands, except per share data)

MKS Inc. ("MKS" or the "Company") is a provider of software products and services in the application development and deployment (software "Application Lifecycle Management" or "ALM", formerly "Software Configuration Management") and cross-platform development and systems administration ("Interoperability" or "IO") markets. The Company's products are designed to increase development team productivity while improving the quality, reliability and availability of business critical software as it is developed and maintained, and to significantly cut development costs and time to market while enabling enhanced performance.

1. Significant accounting policies:

a) Basis of presentation:

The accompanying consolidated financial statements of MKS Inc. ("MKS" or the "Company") as at January 31, 2009 and for the three and nine month periods ended January 31, 2009 and 2008 are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information, using the same accounting policies and methods of application as used in the April 30, 2008 annual financial statements.

Accordingly, these consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary for a fair presentation, have been included. The results for the interim periods presented are not necessarily indicative of the results that may be expected for any future period. The following information should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended April 30, 2008.

b) Financial instruments

The Company has entered into cash flow hedges to purchase Canadian Dollars at times in the future to help mitigate foreign exchange fluctuations between the Canadian and United States dollars through October 2009. These hedges are accounted for as designated cash flow hedges. At January 31, 2009 these hedges were assessed as fully effective and the unrealized gain or loss on those hedges was reflected in the Company's Other Comprehensive Income (Loss). As at January 31, 2009 the Company has recorded an unrealized loss in Other Comprehensive Income (Loss) and accounts payable of \$959. Any ineffective portion of the hedges would be reflected in net income for the applicable period.

c) Fair value measurements

In September 2006, the Financial Standards Board released FASB 157, "Fair Value Measurements", which is effective for fiscal years beginning after November 15, 2007. FASB 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. There is no impact of this pronouncement on the Company's interim financial statements.

d) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year financial statement presentation.

2. Cash and cash equivalents:

Included in the balance of cash and cash equivalents at January 31, 2009 is \$1,883 (April 30, 2008 - \$nil) of cash and cash equivalents held as a security deposit by the counterparty to forward foreign exchange contracts entered into by the Company.

3. Fixed assets, intangible assets and goodwill:

a) Fixed assets:

	January 31 2009	April 30 2008
Computer equipment	\$ 9,873	\$ 9,736
Applications software	3,164	2,901
Office furniture and equipment	1,949	2,053
Leasehold improvements	1,809	1,888
	16,795	16,578
Accumulated depreciation	(12,500)	(12,048)
	\$ 4,295	\$ 4,530

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Notes to Consolidated Financial Statements

(U.S. dollars, thousands, except per share data)

b) Intangible assets:

	January 31 2009	April 30 2008
Purchased software and technology, gross	\$ 958	\$ 958
Other intangible assets, gross	389	389
Accumulated amortization	(1,257)	(1,192)
Intangible assets, net	\$ 90	\$ 155

Intangible assets are amortized on a straight-line basis over their expected life, over periods of 3 to 5 years.

c) Goodwill:

The Company's goodwill balances are assigned to reporting units that coincide with the Company's reportable operating segments as follows:

Application Lifecycle Management	\$ 2,424
Interoperability	—
Goodwill	\$ 2,424

4. Shareholders' equity:

a) Share capital:

	January 31 2009	April 30 2008
Common shares:		
Authorized – unlimited		
Issued and outstanding – 49,730 (April 30, 2008 – 51,427), no par value	\$ 52,588	\$ 54,375
Additional paid in capital	2,754	2,033
Preferred shares:		
Authorized – unlimited, issuable in series		
Issued and outstanding – nil	—	—
Total share capital	\$ 55,342	\$ 56,408

The Preferred Shares are non-voting, unless dividends are in arrears, and rank in priority to the Common Shares in respect of the payment of dividends and as to the distribution of assets in the event of liquidation, dissolution or wind-up of the Company.

b) Continuity of options issued under the Company's stock option plans:

A summary of the status of the plans as of the nine months ended January 31, 2009 and the year ended April 30, 2008 is presented below:

	Nine Months Ended January 31, 2009		Year Ended April 30, 2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of period	6,178	Cdn\$1.66	7,652	Cdn\$1.69
Granted	1,025	1.60	823	1.54
Exercised	(348)	1.33	(775)	1.30
Forfeited	(236)	1.99	(1,522)	1.90
Outstanding, end of period	6,619	Cdn\$1.66	6,178	Cdn\$1.66
Options exercisable, end of period	4,809	Cdn\$1.63	4,833	Cdn\$1.59

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- c) Summary of the balances of options issued under the plans at January 31, 2009:

Range of Exercise Prices (Cdn\$)	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price (Cdn\$)	Number Exercisable	Weighted Average Exercise Price (Cdn\$)
\$ 0.60 – 0.96	163	2.5 years	\$ 0.95	163	\$0.95
1.00 – 1.37	2,586	2.3	1.29	2,552	1.30
1.41 – 1.98	2,841	4.6	1.70	1,313	1.82
2.07 – 2.75	1,029	3.9	2.57	781	2.53
	6,619	3.6 years	\$ 1.66	4,809	\$ 1.63

- d) The impact of the stock based compensation charge by financial statement caption would be as follows:

	Three months Ended January 31		Nine months Ended January 31	
	2009	2008	2009	2008
Cost of product and support	\$ 2	\$ 4	\$ 9	\$ 10
Cost of service	3	7	18	17
Sales and marketing	32	63	173	156
Research and development	27	47	117	111
General and administrative	78	81	404	211
	\$ 142	\$ 202	\$ 721	\$ 505

The fair value of option grants were estimated using the Black-Scholes option pricing model with the following assumptions for options granted in the nine months ended January 31, 2009: risk free interest rate – 3% (January 31, 2008 – 4%), dividend yield – 6% (January 31, 2008 – 6%), expected lives of options – 5 years (January 31, 2008 – 5 years), expected volatility – 59% (January 31, 2008 – 69%) and expected forfeiture rate – 17% (January 31, 2008 – 17%). The fair value of options applicable to non-vested awards at January 31, 2009 was \$524 and the weighted-average period over which those non-vested awards are expected to be recognized is 1.3 years.

- e) Employee Share Purchase Plan:

During the nine months ended January 31, 2009, 126 shares (January 31, 2008 – 23 shares) were issued under the Employee Share Purchase Plan (ESPP) for aggregate proceeds of \$115 (January 31, 2008 – \$41). A stock-based compensation charge of \$20 was charged related to the discount provided to ESPP participants during the nine months ended January 31, 2009 (January 31, 2008 – \$7).

5. Income taxes

- a) Current income tax provision (recovery):

	Three months Ended January 31		Nine months Ended January 31	
	2009	2008	2009	2008
Gross current income tax provision (recovery)	\$ (42)	\$ –	\$ 84	\$ –
Less: Investment tax credits realized	(80)	–	(172)	(196)
Net current income tax provision (recovery)	\$ (122)	\$ –	\$ (88)	\$ (196)

The Company qualifies for certain refundable investment tax credits related to its research and development activities. As required under US GAAP, these investment tax credits have been accounted for as a reduction of the Company's current income tax provision or recovery.

- b) Uncertain tax positions:

The Company's policy is to include interest and penalties related to gross unrecognized tax benefits within our income tax provision. Previously, interest paid related to income taxes was classified in the company's financial statements as interest expense. As of January 31, 2009, the Company had accrued \$nil related to the payment of such interest and penalties.

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The Company is subject to income taxes in a number of jurisdictions due to its international operations. The Company is not currently under examinations by any tax authorities related to its income taxes. The major tax jurisdictions the Company operates within and open tax years in each of those jurisdictions is indicated in the following table:

Major Tax Jurisdiction	Open Tax Years
Canada	2003 to 2008
United States	2004 to 2008
United Kingdom	2005 to 2008
Germany	2004 to 2008

6. Comprehensive income (loss):

	Three months Ended		Nine months Ended	
	January 31		January 31	
	2009	2008	2009	2008
Net income (loss)	\$ 325	\$ (754)	\$ 2,297	\$ (877)
Other comprehensive income (loss):				
Foreign exchange gain (loss) on hedged derivative contracts	582	–	(959)	–
Foreign currency translation, net of taxes of nil	(2)	57	(391)	(123)
Comprehensive income (loss)	\$ 905	\$ (697)	\$ 947	\$ (1,000)

7. Earnings (loss) per share:

Basic earnings (loss) per share and diluted earnings (loss) per share are calculated as follows:

	Three months Ended		Nine months Ended	
	January 31		January 31	
	2009	2008	2009	2008
Net income (loss)	\$ 325	\$ (754)	\$ 2,297	\$ (877)
Basic weighted average number of shares outstanding	49,667	50,751	50,526	50,652
Incremental shares from assumed exercise of stock options	31	–	333	–
Diluted weighted average number of shares outstanding	49,698	50,751	50,859	50,652
Earnings (loss) per share:				
Basic	\$ 0.01	\$ (0.01)	\$ 0.05	\$ (0.02)
Diluted	\$ 0.01	\$ (0.01)	\$ 0.05	\$ (0.02)

For the three and nine months ended January 31, 2008, stock options outstanding were not included in the calculation of diluted loss per share because the Company had a loss for those periods and to do so would have been anti-dilutive. The number of potentially dilutive stock options excluded from the calculation of diluted loss per share was 111 and 373 for the three and nine months ended January 31, 2008, respectively.

8. Segmented information:

The Company evaluates operational performance based on two operating segments: software Application Lifecycle Management (ALM) and Interoperability (IO). The segments are managed separately because each requires unique marketing strategies and is exposed to different economic environments. The ALM segment develops and markets software solutions that assist programmers in the creation of traditional and Web-based software, and in the management of the software development process. The IO segment encompasses products that address the issues surrounding cross-platform development, application migration, systems administration and network management. It is the Company's policy to price internal sales or transfer values for services on an equivalent basis as that used for external pricing.

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The following schedule provides required segmented information disclosure.

	Three Months Ended January 31, 2009			Three Months Ended January 31, 2008		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 7,401	\$ 1,185	\$ 8,586	\$ 6,252	\$ 1,248	\$ 7,500
Europe & Other	4,165	452	4,617	4,771	519	5,290
Total revenue	\$ 11,566	\$ 1,637	\$ 13,203	\$ 11,023	\$ 1,767	\$ 12,790
Revenue:						
License	\$ 2,768	\$ 934	\$ 3,702	\$ 3,134	\$ 986	\$ 4,120
Maintenance	6,277	703	6,980	5,803	781	6,584
Service	2,521	—	2,521	2,086	—	2,086
Total revenue	\$ 11,566	\$ 1,637	\$ 13,203	\$ 11,023	\$ 1,767	\$ 12,790
Income:						
Operating income	\$ 110	\$ 308	\$ 418	\$ (1,201)	\$ 395	\$ (806)
Interest and income taxes			(93)			52
Net income			\$ 325			\$ (754)
	Nine Months Ended January 31, 2009			Nine Months Ended January 31, 2008		
	ALM	IO	Total	ALM	IO	Total
Revenue:						
North America	\$ 23,479	\$ 4,195	\$ 27,674	\$ 19,756	\$ 4,153	\$ 23,909
Europe & Other	15,735	1,427	17,162	14,846	1,270	16,116
Total revenue	\$ 39,214	\$ 5,622	\$ 44,836	\$ 34,602	\$ 5,423	\$ 40,025
Revenue:						
License	\$ 12,794	\$ 3,489	\$ 16,283	\$ 11,999	\$ 3,051	\$ 15,050
Maintenance	18,933	2,133	21,066	16,819	2,372	19,191
Service	7,487	—	7,487	5,784	—	5,784
Total revenue	\$ 39,214	\$ 5,622	\$ 44,836	\$ 34,602	\$ 5,423	\$ 40,025
Income (loss):						
Operating income (loss)	\$ 2,179	\$ 1,346	\$ 3,525	\$ (1,942)	\$ 1,297	\$ (645)
Interest and income taxes			(1,228)			(232)
Net income (loss)			\$ 2,297			\$ (877)
Purchase of fixed assets and intangible assets	\$ 922	\$ 13	\$ 935	\$ 1,003	\$ —	\$ 1,003
Depreciation and amortization of fixed assets and intangible assets	\$ 1,038	\$ 25	\$ 1,063	\$ 1,022	\$ 36	\$ 1,058
	January 31, 2009			April 30, 2008		
	ALM	IO	Total	ALM	IO	Total
Total assets:						
Canada	\$ 13,619	\$ —	\$ 13,619	\$ 10,366	\$ —	\$ 10,366
Other	11,273	11,392	22,665	19,331	12,567	31,898
Total assets	\$ 24,442	\$ 11,392	\$ 36,284	\$ 29,697	\$ 12,567	\$ 42,264
Fixed assets, intangible assets and goodwill	\$ 6,666	\$ 143	\$ 6,809	\$ 6,954	\$ 155	\$ 7,109

Geographic segmentation of revenue is determined based on the location of the customer.